



## Finance & Insurance Committee

Approve the proposed biennial budget for fiscal years 2022/23 and 2023/24, which includes the Capital Investment Plan and revenue requirements for fiscal years 2022/23 and 2023/24, and ten-year forecast; adopt resolutions fixing and adopting the water rates and charges for calendar years 2023 and 2024

Item 7-3  
April 11, 2022

# Process

February 7, 2022	F&I Committee, board letters 9-2, Workshop #1
February 11, 2022	Notice of public hearing regarding proposed rates and charges transmitted to member agencies
February 22, 2022	F&I Committee, Workshop #2
February 24, 2022	Notice of public hearing regarding Section 124.5 transmitted to Legislature
March 7, 2022	F&I Committee, Workshop #3
March 8, 2022	A public hearing on proposed water rates and charges and applicability of the tax rate limit pursuant to Section 124.5 of the MWD Act
March 22, 2022	F&I Committee, Workshop #4
April 11, 2022	F&I Committee, Recommended Biennial Budget, Calendar Year rates and charges, and applicability of Section 124.5 tax rate limit
April 12, 2022	Board <u><b>action</b></u> regarding Biennial Budget, Calendar Year rates and charges, and applicability of Section 124.5 tax rate limit

# Option 1: Proposed Biennial Budget (March update)

- Overall rate increase of 8% for CY2023 and 8% for CY2024
- Limits increase in Departmental O&M expenditures to ~3% per year
  - Includes 20 new regular FTEs to support SRI, DE&I, EEO offices and key operational needs
  - Includes \$20M for planning activities related to the RRWP
- \$600M CIP
  - Maintain PAYGO funding at \$135M per year to limit rate impacts
    - contributes to not meeting MWD's 2x revenue bond coverage target
- \$99M for the Delta Conveyance Project planning activities
  - Partially funded from \$34.5M California WaterFix refund
- Conservation Program increased to \$43M per year over the biennium
  - The additional \$18M per year is bond funded to limit the short-term rate impact

# Option I: Proposed Biennial Budget continued...

- Bond finance the AVEK High Desert Program
  - Reduces short-term rate impacts
- Net reserve draw of \$55.2M over the biennium
  - \$0.9M added to unrestricted reserves
  - \$56.1M draw from the Water Stewardship Fund
- Revenue bond coverage drops to 1.5x over the biennium
  - Below target of 2.0x
- Long-term overall rate increases are projected at 5% per year
  - Includes the full scale RRWP
  - Does not include the Delta Conveyance Project
  - Projection is subject to change based on many factors including implementation of the 2020 IRP and updated water transactions.

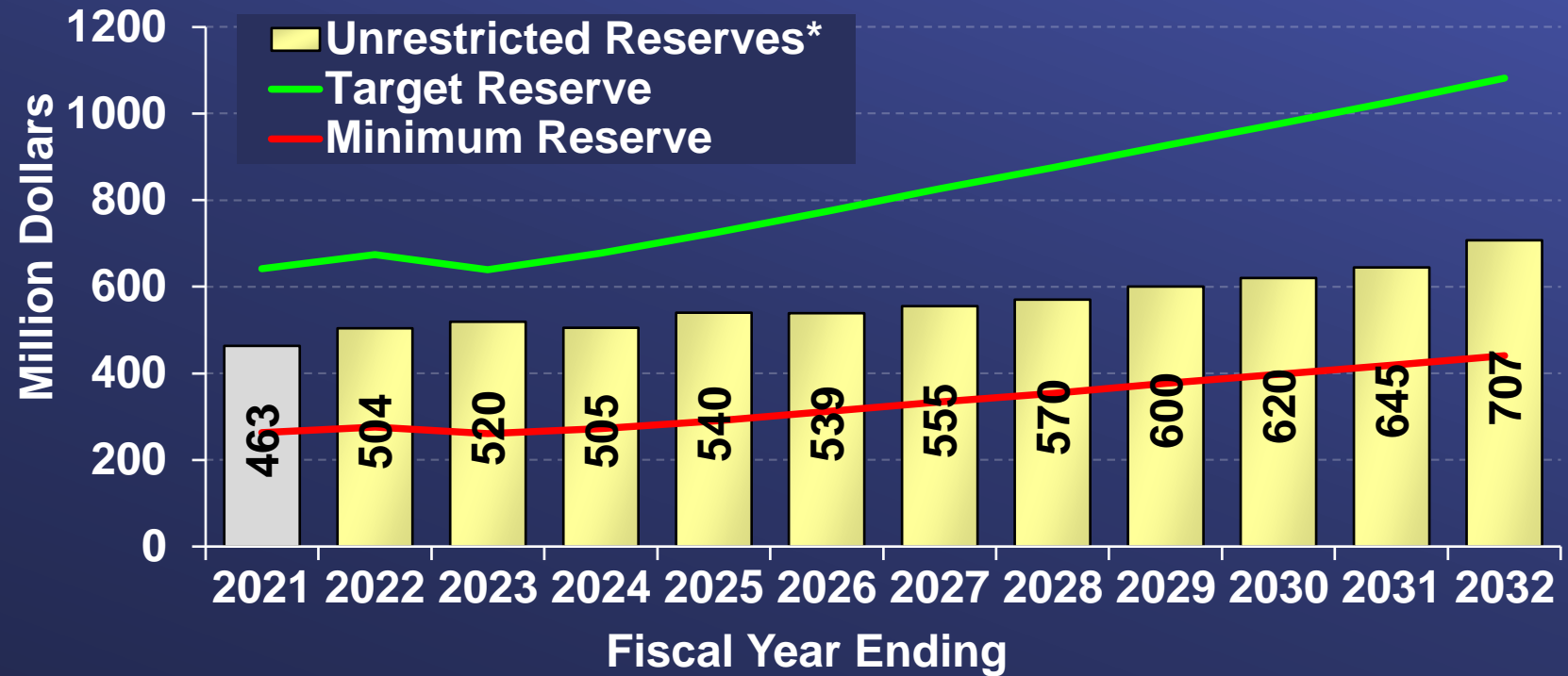
# Option I: Water Rates and Charges

<b>Rates &amp; Charges</b> <b>Effective January 1st</b>	<b>2022</b>	<b>2023</b>	<b>% Increase (Decrease)</b>	<b>2024</b>	<b>% Increase (Decrease)</b>
Tier 1 Supply Rate (\$/AF)	\$243	\$329	35%	\$355	8%
Tier 2 Supply Rate (\$/AF)	\$285	\$532	87%	\$540	2%
System Access Rate (\$/AF)	\$389	\$381	(2%)	\$412	8%
System Power Rate (\$/AF)	\$167	\$169	1%	\$190	12%
Treatment Surcharge (\$/AF)	\$344	\$367	7%	\$373	2%
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$799	\$879	10%	\$957	9%
Tier 2	\$841	\$1,082	29%	\$1,142	6%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>					
Tier 1	\$1,143	\$1,246	9%	\$1,330	7%
Tier 2	\$1,185	\$1,449	22%	\$1,515	5%
<b>RTS Charge (\$M)</b>	\$140	\$157	12%	\$175	11%
<b>Capacity Charge (\$/cfs)</b>	\$12,200	\$10,800	(11%)	\$11,800	9%
<b>Overall Rate Increase</b>			<b>8.0%</b>		<b>8.0%</b>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.



# Option I: Ten-year Financial Projection



Overall Rate Inc.	3.0%	4.0%	8.0%	8.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.52	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	2.0	1.6	1.5	1.5	1.8	1.7	1.8	1.7	1.7	1.8	1.8	1.7
Fixed Chg Cvg	2.0	1.6	1.5	1.5	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.6
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

# Option 2

- Overall rate increase of 6.5% for CY2023 and 6.5% for CY2024
- Changes as compared to Option 1
  - Increased departmental budget vacancy rate from 2% to 5%
    - Reflects current conditions
      - Reduces departmental O&M \$24M over the biennium. The higher vacancy rate is assumed to persist through FY2031/32.
      - Risk: some savings might not materialize as savings from unfilled positions are often spent on overtime or temporary labor. Also, the savings might not be maintained if the vacancy rate decreases.
  - Updated LRP projection
    - Reflects the expectation that no new agreements will be added during the biennial budget
  - Increases CY2025 to CY2029 rates
  - Decreases revenue bond coverage to 1.4x in FY2023/24
- Additional risks as compared to Option 1
  - Savings might not materialize or be maintained
  - Increased risk of large reserves draws that necessitate unplanned rate increases or higher future rates

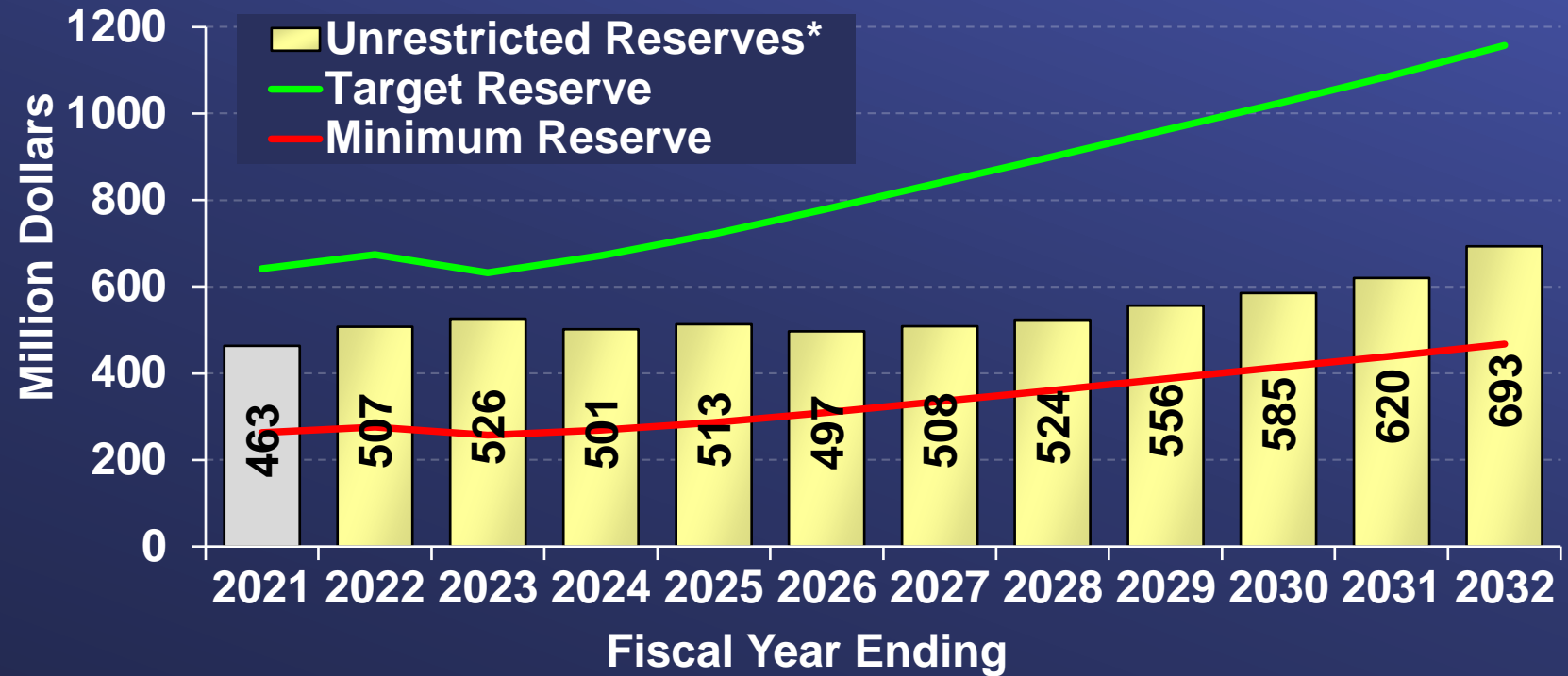
# Option 2: Water Rates and Charges

<b>Rates &amp; Charges Effective January 1st</b>	<b>2022</b>	<b>2023</b>	<b>% Increase (Decrease)</b>	<b>2024</b>	<b>% Increase (Decrease)</b>
Tier 1 Supply Rate (\$/AF)	\$243	\$325	34%	\$341	5%
Tier 2 Supply Rate (\$/AF)	\$285	\$531	86%	\$532	0%
System Access Rate (\$/AF)	\$389	\$375	(4%)	\$401	7%
System Power Rate (\$/AF)	\$167	\$167	0%	\$187	12%
Treatment Surcharge (\$/AF)	\$344	\$360	5%	\$363	1%
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$799	\$867	9%	\$929	7%
Tier 2	\$841	\$1,073	28%	\$1,120	4%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>					
Tier 1	\$1,143	\$1,227	7%	\$1,292	5%
Tier 2	\$1,185	\$1,433	21%	\$1,483	3%
<b>RTS Charge (\$M)</b>	\$140	\$156	11%	\$172	10%
<b>Capacity Charge (\$/cfs)</b>	\$12,200	\$10,700	(12%)	\$11,500	7%
<b>Overall Rate Increase</b>			<b>6.5%</b>		<b>6.5%</b>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.



# Option 2: Ten-year Financial Projection



Overall Rate Inc.	3.0%	4.0%	6.5%	6.5%	6.0%	5.5%	5.5%	5.5%	5.5%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.52	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	2.0	1.6	1.5	1.4	1.7	1.6	1.7	1.7	1.7	1.8	1.8	1.8
Fixed Chg Cvg	2.0	1.6	1.5	1.4	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.6
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

# Option 3

- Overall rate increase of 5.5% for CY2023 and 5.5% for CY2024
- Changes as compared to Option 2
  - Assume MWD receives \$10M in grant funding per year to offset O&M expenditures through FY 2031/32
  - Reduce the Departmental O&M budget another \$10M over the biennial budget period
  - IMPACTS: substantial impacts to MWD's operations and research & planning efforts
  - Increases CY2025 to CY2029 rates
- Additional risks as compared to Option 2
  - Grants might not be obtained
  - Increased risk of large reserves draws that necessitate unplanned rate increases or higher future rates

# Option 3 – Impacts of cuts

## Research and Planning Impacts

- Cancel Feather River Watershed Climate Modeling effort & cut spatial analysis work by 50%
  - Reduce the ability to understand climate change impacts and monitor the effectiveness of water efficiency actions
- Cut Delta-related studies and projects and limit the level of engineering and agricultural coordination support for the Delta Islands
- Cut cost-sharing agreements with other agencies and academic institutions on scientific studies

## Travel, training and conferences

- Cut results in reduced staff development and professional and technical opportunities
- Reduce Director, state and legislative inspection trips

# Option 3 – Impacts of cuts continued...

## Operations Impacts

- Limit the scope of the Seismic Resilience Strategy; postpone a variety of scheduled system vulnerability and reliability studies
- Extend shutdowns (e.g., the 7-day shutdown could extend to 14 days or more) or defer or cancel some shutdowns to reduce overtime
- Cut WSO materials and supplies, which increases the risk to system reliability and may impact the ability to do extended research into emerging water quality issues and trends
- Cut WSO field travel to support work in remote areas in response to potential deferment of select shutdowns
- Cuts in IT outside services and materials and supplies, which will result in slower response time to unplanned outages, possible increase in system downtime, and limited ability to respond to ad hoc requests and system enhancements
- Cut IT training which will greatly decrease innovation and ability to support new technology
- Cancel IT project implementations related to procurement, contracting, HR systems improvement and other projects which may impact district productivity and vendor experience

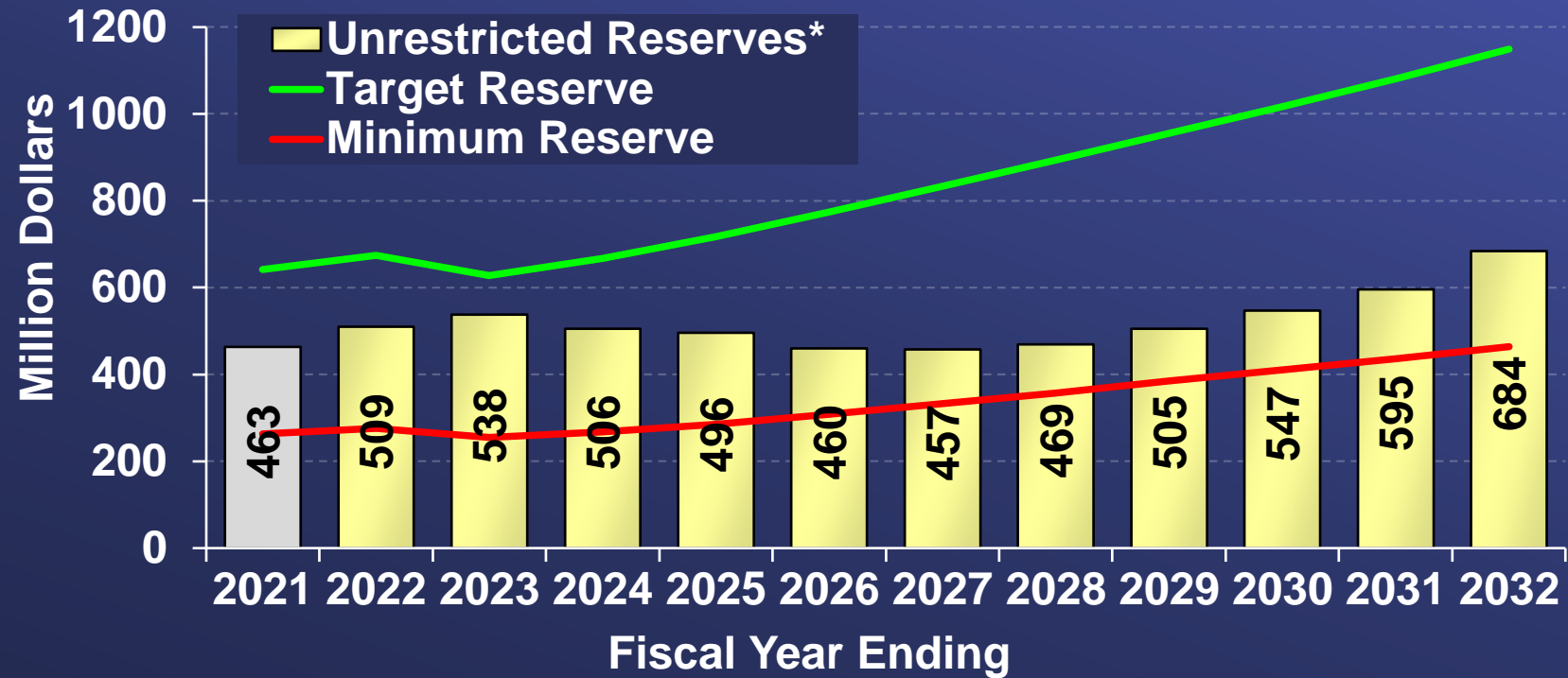
# Option 3: Water Rates and Charges

Rates & Charges Effective January 1st	2022	2023	% Increase (Decrease)	2024	% Increase (Decrease)
Tier 1 Supply Rate (\$/AF)	\$243	\$323	33%	\$335	4%
Tier 2 Supply Rate (\$/AF)	\$285	\$531	86%	\$532	0%
System Access Rate (\$/AF)	\$389	\$370	(5%)	\$393	6%
System Power Rate (\$/AF)	\$167	\$166	(1%)	\$183	10%
Treatment Surcharge (\$/AF)	\$344	\$356	3%	\$357	<1%
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$799	\$859	8%	\$911	6%
Tier 2	\$841	\$1,067	27%	\$1,108	4%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>					
Tier 1	\$1,143	\$1,215	6%	\$1,268	4%
Tier 2	\$1,185	\$1,423	20%	\$1,465	3%
<b>RTS Charge (\$M)</b>	\$140	\$155	11%	\$169	9%
<b>Capacity Charge (\$/cfs)</b>	\$12,200	\$10,600	(13%)	\$11,400	8%
<b>Overall Rate Increase</b>			<b>5.5%</b>		<b>5.5%</b>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.



# Option 3: Ten-year Financial Projection



Overall Rate Inc.	3.0%	4.0%	5.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%
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Fixed Chg Cvg	2.0	1.6	1.5	1.4	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

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# Biennial Budget Recommendation

## ● Option 1

- Approve the FY 2022/23 and FY 2023/24 Proposed Biennial Budget with overall rate increases of 8 percent in CY 2023 and 8 percent in CY 2024, which includes \$3,840.5M in appropriations for ongoing operations, bond-financed conservation and supply programs, and debt service obligations;
- Authorize the use of \$270M in operating revenues to fund the Capital Investment Plan for FYs 2022/23 and 2023/24;
- Determine the revenue requirements to be \$1,712.9M in FY 2022/23 and \$1,800.7M in FY 2023/24;
- Approve the Ten-Year Financial Forecast
- Adopt resolutions fixing and adopting the Readiness-To-Serve Charge, Capacity Charge, and Water Rates
- Authorize a change in the method of installing, keeping, and rendering all accounts from a modified-accrual basis method of accounting to a cash-basis method of accounting for the purpose of budgeting.

# Biennial Budget Recommendation

## ● Option 2

- Approve the FY 2022/23 and FY 2023/24 Proposed Biennial Budget with overall rate increases of 6.5 percent in CY 2023 and 6.5 percent in CY 2024, which includes \$3,810.8M in appropriations for ongoing operations, bond-financed conservation and supply programs, and debt service obligations;
- Authorize the use of \$270M in operating revenues to fund the Capital Investment Plan for FYs 2022/23 and 2023/24;
- Determine the revenue requirements to be \$1,696.3M in FY 2022/23 and \$1,781.8M in FY 2023/24;
- Approve the Ten-Year Financial Forecast
- Adopt resolutions fixing and adopting the Readiness-To-Serve Charge, Capacity Charge, and Water Rates
- Authorize a change in the method of installing, keeping, and rendering all accounts from a modified-accrual basis method of accounting to a cash-basis method of accounting for the purpose of budgeting.

# Biennial Budget Recommendation

## ● Option 3

- Approve the FY 2022/23 and FY 2023/24 Proposed Biennial Budget with overall rate increases of 5.5 percent in CY 2023 and 5.5 percent in CY 2024, which includes \$3,800.5M in appropriations for ongoing operations, bond-financed conservation and supply programs, and debt service obligations;
- Authorize the use of \$270M in operating revenues to fund the Capital Investment Plan for FYs 2022/23 and 2023/24;
- Determine the revenue requirements to be \$1,677.6M in FY 2022/23 and \$1,769.7M in FY 2023/24;
- Approve the Ten-Year Financial Forecast
- Adopt resolutions fixing and adopting the Readiness-To-Serve Charge, Capacity Charge, and Water Rates
- Authorize a change in the method of installing, keeping, and rendering all accounts from a modified-accrual basis method of accounting to a cash-basis method of accounting for the purpose of budgeting.

# Staff Recommendation

- Option 1



